

Task Force on California Gasoline Prices Forum

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Thank you for inviting the Energy Commission to address this meeting of the Attorney General's Task Force on California Gasoline Pricing.

My name is Pat Perez and I manage the Transportation Fuels Office at the California Energy Commission. With respect to gasoline and petroleum markets, the Energy Commission collects information on many aspects of California's transportation fuel supply system, including, but not limited to refinery production volumes, inventories, and fuel prices. This information is used to conduct analyses and provide timely studies to the Governor, Legislature and public on issues affecting the supply and price of petroleum products. It should also be noted that the State does not have regulatory authority for setting gasoline prices. Today, I will review some of the factors that have contributed to California's recent surge in gasoline prices. My presentation will conclude with a number of policy recommendations the Energy Commission is pursuing to address petroleum supply and price issues in the near and long term.

Recent Increase in Gasoline Prices

World crude oil prices have risen. After hitting a post Iraq war low in September 2003, world crude oil prices have been steadily increasing. For example, Alaska North Slope crude prices, which reflect world oil prices, have increased by about \$10 per barrel over

the past six months. Over time, each one dollar increase in the cost of a barrel of crude oil contributes about 2.4 cents to the cost of a gallon of gasoline. This rule of thumb is consistent with the recent increase in average U.S. gasoline prices – from a low of \$1.47 in late December 2003 to a high of \$1.75 this past Monday, March 8th. In California, however, additional upward pressure on gasoline prices has resulted from a series of local refinery problems.

California refineries operate at near capacity for most of the year. However, as California gasoline demand declines during the fall and winter months, most refiners take advantage of this reduced demand by shutting down refinery operations for several weeks to perform routine maintenance. To compensate for the lost production, these refiners increase their inventories of gasoline and blendstocks in the months leading up to the winter maintenance season. Routine winter maintenance was planned for nine of California's 13 gasoline producing refineries: six in January, two in February, and one in March. This year, refiner inventories of gasoline in California peaked at 15 million barrels in mid-January. This is well above historical averages and about 700,000 barrels above inventory levels at the same time last year. To some extent, this higher level of inventory reflected an above average amount of scheduled maintenance this year.

The Energy Commission closely monitors California refinery operations during the winter months and remains informed as to the sequencing and downtime of each refinery's maintenance schedule.

It is not unusual for occasional problems to occur during the winter maintenance season. The most common problem is an equipment failure during start-up which may delay a refinery's coming back on line for several days. However, this year we saw an unusually high degree of start-up problems.

The net effect of these refinery maintenance problems was to draw gasoline inventories down to unusually low levels. By February 27th, California reformulated gasoline inventories stood at 11.5 million barrels – about 800,000 barrels below last year's inventory low of 12.3 million barrels. This unanticipated tightness of supply of gasoline on the West Coast has contributed to the current run-up of prices in California, and is the primary cause of the increased differential in California gasoline prices relative to the rest of the U.S.

Due primarily to a combination of higher formulation costs and higher state gasoline taxes, retail gasoline prices in California typically average between 10 and 20 cents higher per gallon than the U.S. average. As of December 30, 2003, the average retail price for regular reformulated gasoline in California was \$1.60 per gallon, the lowest level in almost a year. On Monday, March 8th, the statewide average gasoline price was \$2.11. How does this compare to the U.S. average price? In early January, average California retail gasoline prices were 11 cents higher than the national average. As of March 8th, California retail prices are 37 cents per gallon higher.

At the present time, the unusual series of refinery problems that have occurred over the past two months in California have been mostly resolved, and refinery maintenance is back on schedule. Wholesale gasoline prices in Los Angeles, which rose gradually during the month of January from \$1.00 to a peak of \$1.58 by February 19th, have since declined to \$1.33 as of Monday, March 8th.

The declining wholesale prices are a reflection of rising inventories statewide – about a half million barrels in the past week. Recently reported forward contract prices for April gasoline deliveries also show a downward trend in wholesale prices. Average retail gasoline prices in California have remained stable over the past couple of weeks and appear to be at or very near their peak for this price cycle.

Recommended Policy Actions:

Near-Term Solutions:

- Pursue U.S. Environmental Protection Agency oxygenate waiver
- Improve collection of petroleum data
- Establish a one-stop licensing process for petroleum infrastructure

Long-Term Solutions:

- Establish goal to reduce gasoline demand to 15% below 2003 levels by 2020
- Increase use of non-petroleum fuels to 20% by 2020
- Double CAFÉ standards by 2020
- Adopt tire efficiency standards
- Encourage use of alternative fuels

Please visit the Energy Commission's website at www.energy.ca.gov for more information regarding the Energy Commission's policy recommendations and other petroleum related documents and activities.